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A-610 from Rome

Senator Valletta:

Fiat has made many deals with all the countries of the world and it is logical that Fiat should think of having trade relations with the USSR. In 1962 I reported to President Kennedy that Fiat intended to expand its trade relations with USSR. I must say that we had been encouraged to establish trade relations with the East it being the general consensus that it was a good thing to push the Soviet Union into the field of consumer goods production. In 1962 negotiations began between Fiat and the USSR for the production there of such consumer goods as tractors, or items for peaceful purposes such as ships and railroad equipment. Through these discussions we came to having continual contacts with the Soviets and as much as 46 USSR missions, and three times Kossygin himself, have visited Fiat in Turin. Earlier discussions concerned the proposed construction in USSR of a tractor manufacturing plant, but the idea was eventually dropped for reasons not worth mentioning now. Thus the conclusion was reached in July 1965 for building a passenger car plant with a daily capacity of 2,000 units.

In view of the magnitude of the deal, involving a Soviet investment of \$800 million and an Italian financing of 200 billion lire; in view of the feelings of friendship and gratitude towards the United States for rebuilding Fiat itself and Italy, and having already spoken with Kennedy who thought useful to develop Soviet consumer goods production, I thought advisable, after July 1965, to go to the United States and inform the U.S. authorities. I gave them, as they asked me to, details of the deal and it was not felt that such deal would be against the interest of the West. American reactions had been positive. I asked on that occasion if the Soviets could have U.S. machines which we have used successfully in our plants. I got the answer that nothing could be said but also that this could not be excluded. A decision would be taken at the appropriate time. I reported to the Soviets that it was not excluded that the United States would supply the machines when the Soviets themselves would show their agreement.

Soviet reactions were not merely positive but even enthusiastic. In the meantime U.S. manufacturers, our excellent suppliers, have been pleading us to keep them in mind should the Italian-Soviet project include the opportunity of selling equipment from the United States.

In my contacts with the American authorities I learnt that no machine tools would be supplied of types that could be used for the manufacture of "strategic" items. Our project for an automobile manufacturing plant was engineered to include among Western machines also U.S. machines which clearly could be supplied by other Western countries. Several machines will be provided by the USSR itself or by other Eastern countries. As it was thought that financing up to \$50 million could be obtained from the United States, we have included in the project American

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machines to that amount. These machines, however, can also be purchased in France or in England, or American machines could be limited to a lower amount. Anyway, it was contemplated to buy machine tools from those countries which are willing to finance their exports.

Subcommittee Chairman:

May I know why specifically American machines were selected when comparable machines could be obtained from other countries?

Senator Valletta:

Because we believe U.S. machines are better engineered; that is why we suggested them to the Soviets.

Subcommittee Member:

On what basis will the selection of machines be made? Possibly on a price basis?

Senator Valletta:

Naturally prices will have to be competitive. We moved on quality considerations. The decision stays with the Soviets. We have made our proposals.

Subcommittee Member:

From a logical point of view it is good to distract the USSR from war production. There is, however, a great change in our policy. We are becoming ever more heavily involved in Vietnam and this affects the American people especially as concerns credit assistance to machine tool exports to the USSR. Are the countries beyond the Iron Curtain good customers? The Poles, for instance? I know that Fiat has connections also with Poland. Do they pay on maturity? Do they meet their obligations?

Senator Valletta:

Our opinion is good. Yugoslavia itself has always paid.

Subcommittee Members:

Americans, however, are worrying because the Soviets have poured over one billion dollars into North Vietnam, and this was not to end the war there.

Another Subcommittee Member:

Many American citizens are scared to do business with the enemy (sic) and accordingly they would not like to finance exports to Eastern countries. I have a question: Perhaps Fiat has already used American equipment in plants beyond the Iron Curtain?

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Mr. De Regibus:

Our past operations involved only the assembly of cars, as in Yugoslavia. Therefore there was no need for precision machines. Regarding Poland, there is under implementation a contract signed in December 1965 for the construction of an automobile plant with a capacity of 200 units per day.

Subcommittee Member:

What type of contract is there between Fiat and USSR? A turn key contract or a sale of patent rights?

Senator Valletta:

Sale of a plant with cooperation of Italian and Soviet engineers.

Mr. De Regibus:

Granting of patent rights for two Fiat models. Study of the plant with all the machinery and study of the buildings. The machines will be supplied from Eastern countries as well as from Western countries; in the latter case both directly and through Fiat. It is not a turn key contract.

Subcommittee Member:

Regarding the consideration to Fiat, is it paid straight way or deferred?

Senator Valletta:

Deferred.

Subcommittee Member:

Regarding the financing to be made by the E-I Bank, does Fiat buy and then sell on credit?

Mr. Oddi Baglioni:

It depends: For the other countries we have asked that the banks open credit lines directly with the USSR under the same credit terms granted to IMI. Thus in the Fiat deal credit is granted directly by IMI to the Vneshtorgbank, with Fiat paid cash. In the case of Export-Import Bank it depends from the Bank itself and the U.S. Government. We would prefer it to be a deal direct with the USSR.

Subcommittee Chairman:

We thought the financing was from Ex-Im Bank to IMI.

Mr. Oddi Baglioni:

I expressed a desire in reply to your query.

Subcommittee Member:

However, I believe it will remain a desire.

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Another Subcommittee Member:

We understand that IMI is granting a credit of \$320 million repayable in about 8 years.

Mr. Oddi Baglioni:

Actually the credit of 200 billion lire will be repaid in 17 six-monthly installments, the first maturing June 1, 1971.

Subcommittee Member:

Fiat guaranties IMI.

Mr. Oddi Baglioni:

Fiat is not a party in the financing deal. We are covered by the Export Act.

Subcommittee Chairman:

I believe that IMI is somewhat optimistic over the next 10 years.

Mr. Oddi Baglioni:

Our experience with Eastern Countries is good. We never had problems. It is tough to arrive at the conclusion of a deal, but then they respect the agreements. With Poland we have had relations since 1955.

Subcommittee Member:

Fiat will continue its cooperation in the future?

Senator Valletta:

Under the supply contract it ends with the plant, but the protocol also speaks of a future cooperation.

Subcommittee Member:

Will all the car components be manufactured in USSR or will they also be imported?

Senator Valletta:

Entirely manufactured in USSR.

Subcommittee Member:

Will payment to Fiat be made in cash or in kind?

Senator Valletta:

Practically in cash. A minimal portion in kind.

Subcommittee Member:

How long will it take for Fiat to obtain American equipment?

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Senator Valletta:

From a year to a year and a half after placing the purchase order.

Subcommittee Member:

When do you expect to place your purchase orders?

Senator Valletta:

Within some months.

Subcommittee Member:

We talked of machines. Could we have a list?

Senator Valletta:

We have already prepared one. Here are four copies for you.

Subcommittee Member:

Is this material confidential, or can we release it in Congress?

Senator Valletta:

This list can be communicated to the Congress, but it would be better if it were not divulged lest expectations arise that might not tally with reality.

Subcommittee Member:

Do you think it will be necessary to send also American engineers?

Senator Valletta:

Some, yes.

Subcommittee Member:

You have no obligation to answer: It seems that Fiat does not fear that there will be competition with Italian products. Is it so?

Senator Valletta:

We will see to it that the plant be like ours: rather, better than ours. We think there will be enormous consumer demand and that our products will be successfully exported to meet market requirements. We think the Soviet Union will be slow in expanding its consumer goods production.

Subcommittee Chairman:

We know that most of the Soviet output is being exported at prices lower than those applied on the home market.

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Mr. Siglienti:

The cars to be manufactured in the new plant are meant for private buyers, whereas the present Soviet production is for state agencies exclusively.

Subcommittee Member:

Is there any clause barring exports in your contract with the Soviet Union?

Mr. De Regibus:

No. However, the 600,00 cars per year can easily be marketed domestically. And this rate of 600,000 cars will be reached in five years from now.

Subcommittee Member:

Do you think that market demand will be stimulated by these 600,000 cars? Apparently Kosyghin said the cars will go to Government officials.

Senator Valletta:

Obviously there will have to be a controlled distribution as the demand will certainly exceed availability of cars. It should be borne in mind that the Soviet people have not had many opportunities for spending their money and, accordingly, have built up considerable savings.

Subcommittee Member:

Do you think the Soviets will export?

Senator Valletta:

To a relatively small extent, possibly, yes, especially to create the basis for their future markets.

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The meeting closed at 7:15 p.m.

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